TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Update on Federal Legislation

ITEM NUMBER: 7b

ATTACHMENT (S): 1

ACTION: X

MEETING DATE: January 14, 1999

INFORMATION: ____

PRESENTER: Ms. DuCray-Morrill

Attached is a comprehensive report from Hogan & Hartson on issues at the federal level. Ms. DuCray-Morrill will provide a verbal presentation at the meeting.

**MEMORANDUM FOR
THE CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**

Washington Monthly Report

Mandatory Social Security

As we prepare to look ahead to the new Congressional session and the looming battle over Social Security reform and possible mandatory coverage of all new State and local government workers, it is useful to summarize the key events in the debate over the past year, to analyze what we have learned from the debate thus far, and to articulate CalSTRS's strategy for the coming year.

Background

House Ways and Means Hearing

The debate over possible proposals to impose mandatory coverage on new State and local government workers began in earnest in the Spring of this year with a Congressional hearing on the issue before the Social Security Subcommittee of the House Ways and Means Committee in May.

The U.S. General Accounting Office (GAO), which had been conducting a study of the issue at the request of the Subcommittee, testified that it is only *fair* that new State and local workers be brought in because Social Security was intended to be a universal system and many such workers ultimately qualify for Social Security benefits through other work or spousal benefits. The GAO was quite candid in conceding that the true driving force behind mandatory Social Security proposals is the need for a near-term Federal revenue source to replace other Social Security revenues that would be diverted from funding benefits to current retirees into "privatized" accounts for future retirees or other Social Security reform options.

CalSTRS filed a detailed written statement with the House Ways and Means Social Security Subcommittee in conjunction with the hearing, rebutting at length the GAO's "fairness" argument and detailing the harsh cost impact and severe dislocation that would be imposed on State and local employers and workers covered under STRS.

In essence, the STRS statement points out that the Federal government would be seeking to carry out its commitment to participants in the Social Security system by forcing the State and local governments to cast aside the commitment they have made to their workforce and the participants in their retirement plans -- all to solve a Federal problem that these State and local governments had no hand in creating. States like California -- which has prefunded the STRS teacher retirement program to pay out almost $3 billion in benefits each year -- would be asked to cast aside these decades of successfully providing retirement benefits to generations of workers in order to force the future membership into a pay-as-you-go Social Security system that will provide a reduced benefit at higher cost.

GAO Report

The formal written GAO report came out later in the Summer. The report represented a balancing between the interests of the Social Security trust fund on the Federal side and the impact on the existing State and local retirement systems whose members do not participate in Social Security. As with all GAO reports, this report was driving toward a conclusion -- the conclusion that mandatory coverage would shave l0 percent off the long-term deficit of the Social Security trust fund, without clearly jeopardizing the continued viability of current non-participating State and local retirement systems.

Where possible, the GAO report strained hard to find a benefit to the Federal system, while stopping short of asking the hard questions regarding long-term actuarial impact of adding these new bodies to a troubled Social Security system. The GAO report did concede that mandatory coverage would produce only two years of additional solvency for the Social Security trust fund.

The discussion over impact on the State and local plans was diluted essentially with the disclaimer that the impact will vary from State to State. Perhaps most importantly, the GAO report failed to find that existing State and local retirement systems and current participants would suffer clear jeopardy from the imposition of mandatory coverage on new hires.

To get the State and local government's side of the story out, STRS staff and a contingent of other California groups held a briefing session in Washington for the Members of the California Congressional delegation and a second briefing session for members of the White House staff. M embers of Congress and their staffs understandably were, and continue to be, focused on the impact of mandatory coverage on school districts and teachers in their Congressional districts. The White House staff at our meeting was preoccupied with labor's position on the mandatory coverage issue and the "temperature" of labor's likely opposition.

Finally, STRS staff had a series of meetings with the staffs of key Californians on the House Ways and Means Committee that would be the first legislative venue for the consideration of Social Security reform. Rep. Bob Matsui (D-Sacramento) has been designated as the new ranking minority member of the Social Security Subcommittee of Ways and Means and thus will be a key player in the overall Social Security debate. These early Congressional meetings provided a useful opportunity to determine what messages resonate with Members of Congress, particularly those from California.

White House Summit on Social Security

The White House conducted a summit on Social Security reform on December 8 and 9 at a local hotel here. There were some 250 invited guests, including Members of Congress, think tank representatives, and affected groups. The summit was intended to cap a year-long series of town meetings on Social Security reform held across the country.

Consistent with the White House's strong focus on labor's reaction to mandatory coverage, the United Teachers of Los Angeles (Bill Lambert) were invited to provide the viewpoint of the California teachers. The White House staff indicated that because of space limitations, there was only a single seat at the summit for each group, *i.e.*, the "California teacher" group. From our strategic perspective, inviting labor played right into our hands because of the strong ties between labor, particularly the teachers' unions, and the White House. The UTLA statement at the summit voiced strong opposition to mandatory coverage because of the adverse cost impact on the public school system and on teacher retirement benefits. (CalPERS also was invited, apparently purporting to speak, as the largest public retirement system in California, on behalf of all California employees even though only a minority of PERS members remain outside of Social Security.)

The format of the summit was as follows. Each participant prepared a two-page written summary of its position for distribution and publication as part of the summit proceedings. We worked with STRS staff and Bill Lambert to prepare this statement for the summit (copy attached). The participants had no formal opportunity to speak at the summit. Rather, there was a half day panel presentation on privatization, followed by closed break-out sessions of several dozen participants each. These break-out sessions were not grouped by issue, but were intended to discuss all aspects of Social Security reform, thus providing no meaningful opportunity for any in-depth discussion of the mandatory coverage issue.

In addition to the UTLA impact statement on the harm to the public school system and teachers in California, as described in more detail below we worked with a group of 20 national organizations of State and local employers and employees to prepare a joint letter to the President strongly opposing mandatory coverage (copy attached). This letter was delivered at the summit.

The second day of the summit consisted of closed-door discussions between Administration officials and invited Members of Congress. Key California Members of Congress attending included: Reps. Bob Matsui (Sacramento), Bill Thomas (R-Bakersfield), and Xavier Becerra (D-Los Angeles).

There were two principal upshots of the summit. First, the summit provided a venue for the Administration to float a trial balloon that the White House is "leaning" toward some form of partial privatization. Second, the summit represented at least the beginnings of some bipartisan discussions regarding possible options. Prior to the impeachment proceedings, there had been some initial momentum for continuing these bipartisan discussions between the White House and Congressional leaders. Now all of that is up in the air pending the outcome of the Senate proceedings. The surreal atmosphere here in Washington is perhaps best illustrated by Rep. Clay Shaw's (R-Fla.) press conference at which he dramatically announced that he would vote to impeach the President, but then went on to note that as the incoming Chairman of the House Ways and Means Social Security Subcommittee he hoped to be able to work with the White House to develop a bipartisan Social Security reform plan.

Legislative Message and Strategy

All of these discussions provided useful intelligence for refining our message and legislative strategy on the mandatory coverage issue. A number of lessons have become clear.

First, the adverse impact on which to focus is employer cost and employee benefit cuts, not plan impact.

Faced with the harsh new cost burden of mandatory Social Security, State and local governments can raise taxes, cut benefits, or cut spending for other essential government services. STRS's plan actuaries have calculated that under a plan coordinated with Social Security for new hires, it would cost an *additional* 7 percent of payroll -- more than $l billion Statewide when fully phased-in -- simply to provide the same level of benefits that the current STRS plan provides to participants.

School districts already grappling with class-size reduction and crumbling facilities would be forced to shoulder this heavy new cost burden. That proposed new library or athletic facility could not be built.

Employee groups, for their part, would be faced with likely benefit cuts for new hires and loss of ability to tailor benefits under the “one-size-fits-all” approach of Social Security dictated from Washington. Current teachers would suffer from the employer’s cost hit, as school district budget resources were diverted away from new textbooks and updating facilities.

At the same time, following close scrutiny and actuarial analysis, the case for harsh impact on the retirement systems themselves has not proven to be compelling. At first, we had hoped that the case for threatened harm to the system could be made. The imposition of mandatory Social Security coverage likely would give rise to a new tier for new hires at a dramatically reduced contribution rate. Wouldn’t this drop-off in the flow of new monies coming into the plan jeopardize the plan’s ability to continue to pay benefits to the now closed group of current participants who are aging, at the higher end of their career earnings, and moving closer to retirement under the backloaded defined benefit accrual formula?

Under plans such as STRS that use the entry age normal approach to actuarial funding and are in a strong funding status, the answer according to the plan actuaries and the GAO is in the negative. The only clear adverse impact on the plan itself and current participants is if the plan has been amortizing an unfunded liability; there, the drop-off in new contributions does have an adverse impact. There is a further potential effect on the plan in the form of a forced change in investment strategy. As the plan over time becomes dominated by a closed group of current participants, the potential concern would be that the tail-off in the flow of new contributions could force the plan to restructure its investment portfolio to provide the liquidity -- and correspondingly lower investment return -- necessary to pay retirement benefits as the majority of the closed group retires. However, this “portfolio” effect has yet to be clearly established.

Second, the message is best delivered by State and local employers and employer groups, rather than the plans themselves.

State retirement systems with their billions in assets merely draw attention to the magnitude of the revenue that can be grabbed by the Federal government. In the absence of a clearly compelling message about harm to the plan, the debate must be cast in terms of the harsh cost impact on the public school systems in California -- how class-size reduction could be undermined; how spending for educational materials would be cut; how spending on other government services would be cut; how recruitment and morale of new teachers would be undermined; how benefits would be cut for labor.

These are harms with an inherently local impact. Correspondingly, they are the stuff of political grassroots. Members of Congress -- Democrat and Republican -- will react when they receive a call from the local superintendent of schools describing how this mandate from Washington will force cuts in school programs. The Leadership of both parties in Congress have identified improvement in education as being a top legislative priority for the coming year. Labor with its sheer numbers of voters can express its concerns to its traditional supporters in Congress about the impact of benefit cuts.

That is not to say that the State plans lack a role in this debate. There is a very crucial role -- marshaling, organizing, and coordinating this grassroots effort and helping to follow through in Washington.

Third, the best approach is a two-pronged strategy: (1) active grassroots work within the State, coupled with (2) work in Washington to follow up with key Administration and Congressional decisionmakers and coordinate with the national groups of State and local employers and employees on strategy, message, and meetings

(1) Active grassroots efforts within the State

STRS staff has undertaken an exhaustive effort through briefings, face-to-face meetings across the State, and publications to make the mandatory Social Security issue visible to employer and employee groups, to energize them, and once galvanized to direct their grassroots communications to Washington. STRS staff can report directly to the Board on their detailed work plan and all of the various groups that have been contacted.

As the result of these efforts by STRS staff, there is now a sound grassroots network of both employer groups and employee groups in place in the State that has been activated to contact California Members of Congress and the Administration. The messages already are being received in Congressional offices in Washington.

In addition, together with STRS staff, we have worked with the State Superintendent of Public Instruction and the State Controller on letters to the White House expressing strong opposition to mandatory coverage, as well as preparing a possible draft letter for the Governor-elect to consider sending to the President. These drafts emphasize in different ways the harsh cost impact and severe dislocation that mandatory coverage would impose on school districts and public education across the State at a crucial time when California is trying to implement the very class-size reduction that the President and the Vice President have advocated as a national education policy.

(2) Washington-based activities

On the Washington side, we already have met with key California Congressional offices and will be continuing these discussions, including another round of meetings when STRS staff travels to Washington in late January.

We are encouraged that the national organizations of State and local governments and employee groups are becoming active on the issue and seeking to work together. We have worked with a number of national group representatives to help spur and coordinate this effort. We helped to organize and prepare the attached draft letter to the President from some 20 national groups strongly opposing mandatory coverage. The letter was delivered and released at the White House summit on Social Security. A similar joint letter is now underway for delivery to key Members of Congress, including the House and Senate Leadership and the Chairmen of the House and Senate tax-writing committees that will have jurisdiction over the Social Security reform debate.

These are national groups with whom we have worked very closely in past coalition legislative efforts on nondiscrimination, section 4l5, and other pension changes. However, unlike past issues that cut uniformly across the membership of the national groups, the fact that most State and local governments already are in Social Security has left some national groups conflicted -- at least initially -- as to how actively they wished to become on the issue. However, most of the groups have now stepped forward to lend their names to the effort and to devote at least some staff resources to come to coalition meetings. Time will tell how vigorously some of these groups will seek to mobilize their own members at the State and local level to do the sort of grassroots communication with Congress that STRS is now undertaking.

We are particularly encouraged that a number of the prominent national unions of public workers, including the American Federation of State, County and Municipal Employees, the Service Employees International Union, the police and fire unions, the American Federation of Teachers, and to some extent the National Education Association, have swung into action to work on the White House.

These various national groups are operating as an informal coalition and we will be coordinating with them to help set strategy, tailor the message, and meet with key Congressional and Administration decisionmakers.

A word about the coalition that is supposed to be handling the Social Security issue, formerly known as OPPOSE and now known as the Coalition to Preserve Retirement Security. The Coalition in its newest iteration took some promising first steps to gather data on the impact on mandatory coverage and to coordinate the efforts of the seven States most substantially affected by mandatory coverage. However, as the debate has heated up, the Coalition has seemed to lack a comprehensive strategy for mobilizing on Capitol Hill. In part, this problem reflects the difficulties described above with having the retirement systems themselves out front on a message that is best delivered by employers and employees. In addition, though, internal divisions within the group and a push-and-pull for control have hampered clear direction, communication, and the development and execution of an agreed-upon strategy. The group has unraveled somewhat, and decisions apparently are being made by self-appointed factions without consultation. It may be that the time has come for STRS to reassess its continued participation in this Coalition, certainly its financial participation. STRS, representing the largest single group affected by mandatory coverage, can continue to make its voice heard prominently in the debate and can coordinate with the broader group of national employer and employee organizations in delivering the employer cost and employee benefit cut message here in Washington.

<u>The Way Ahead</u>

It remains to be seen just what impact the impeachment proceedings will have on the prospects for Social Security reform. Will the atmosphere be so poisoned that the bipartisanship necessary to confront the “third rail” of Social Security reform will evaporate? Or will the public’s disgust with the whole process send both parties rushing to seek legislative accomplishments to show the country that the whole mess is behind us, and things that matter on pocketbook issues actually can get done?

From our parochial perspective, having Social Security reform efforts become bogged down is not a bad thing. At a minimum, the impeachment proceedings should buy us some crucial additional time to further energize the critical grassroots contacts with Members of Congress and with the Administration, grassroots contacts not only from California but also from other key States such as Texas that have been slower to respond. In addition, there is the formidable task of finding influential Congressional champions willing to take the lead on the mandatory Social Security issue before the House Ways and Means and Senate Finance Committees and with the House and Senate Leadership Further, there is the time-consuming task of organizing and holding meetings with all of the Members of the Ways and Means and Finance Committees. This will require a division of labor among the national groups of employers and employees and the plans, as well as considerable time and legwork.

What are the prospects for a mandatory coverage proposal at this juncture? Time will tell whether Social Security reform will be seriously taken up or instead will become bogged down because of impeachment or the sheer complexity and strong political cross-currents on the issue of overall reform. If Social Security reform is seriously taken up, the State and local governments, employees, and retirement systems outside of Social Security will be in for the fight of their lives as reform proponents look to mandatory coverage as a revenue offset.

The time is now for public employers and employees at the local level to act in contacting their Members of Congress.

Elk Hills Compensation

Recognizing that the mandatory Social Security is the absolute top Federal legislative priority for STRS, we will also be working with Rep. Bill Thomas (R-Bakersfield) in the coming year to secure the second $36 million installment of Elk Hills compensation.

This will continue to be a formidable legislative task. The budget caps that have bedeviled us in past years will be ratcheting down even further. With the retirement first of Rep Ron Dellums (D-Oakland), former Chairman and ranking Democrat on the House National Security Committee, and now of Rep. Vic Fazio (D-Sacramento), the Chairman of the full House Democratic Caucus, an influential member of the Appropriations Committee, and a close ally of the White House, we be forced to develop a new Democratic champion. Ironically, the departure of House Speaker Newt Gingrich (R-Ga.) also is a significant loss, as he had actively overseen the resolution of this year's $36 million funding for Elk Hills to accommodate Rep. Thomas. The change in the leadership of the House Appropriations Committee also will require adjustments. In the words of one long-time Congressional supporter on the Elk Hills issue, we will have to find "new nerve pathways" politically to pursue the Elk Hills funding issue in the coming Congressional session.

John S. Stanton

December 18, 1998

Impact of Mandatory Social Security Coverage for All State and Local Government New Hires

Major new payroll tax burden for school districts

If added to current pension costs, the 12.4% Social Security payroll tax cost of mandatory Social Security coverage for all new teachers would create a major financial burden for California public schools. The average additional annual cost for a new hire would be at least $1,600 each for the employer and for the employee.

Employers cannot provide an adequate pension benefit after funding the Social Security payroll tax

The additional Social Security payroll tax burden approaches the normal cost of the current CalSTRS retirement plan, leaving little room for the design of a retirement benefit to supplement Social Security for the new hires, except in the unlikely event that new State and local funding can be found.

Dramatically higher costs to fund current retirement benefit levels

State and local government retirement plans produce substantially higher investment returns than Social Security. Actuarial studies show that the current CalSTRS plan produces a much greater benefit than a plan coordinated with Social Security for the same level of contribution, for essentially all combinations of age and service.

If Social Security is substituted for a large portion of the current State pension benefit, contributions to the State plan will have to increase substantially in order to fund the same level of benefits as currently provided to California teachers. CalSTRS has calculated these costs at over 7% of payroll. Based upon California's estimated current teacher payroll of $16 billion, the increase in total cost would be $1.1 billion per year, and increasing over time with growth in payroll. If the employer is required to absorb these costs, the impact to school districts would be doubled. If employees were required to share these increased costs, the impact of mandating Social Security would mean a reduction in salary of nearly 10 percent (6.2% SS tax plus 3.5% increased retirement costs).

Benefits to be cut, rather than costs increased

Given the fiscal and political difficulties of increasing State and local government retirement costs, it seems likely that State and local employers would respond to mandatory coverage for new hires by cutting benefits under the State and local retirement plan rather than suffering substantial increases in contribution costs.

Funded benefit replaced by pay-as-you-go

Mandatory Social Security coverage would substitute an unfunded benefit under the pay-as-you-go Social Security system for the funded retirement benefit that the new State or local worker would have received under the State or local government retirement system.

Threat to future funding status of the State Plan

As the U.S. General Accounting Office has noted in recent testimony before the House Ways and Means Social Security Subcommittee: "Mandatory coverage and the resulting changes to benefit levels for newly hired employees are likely to result in reduced contributions to the current pension plan. The impact of reduced contributions on plan finances would depend on the actuarial method and assumptions used by each plan, the adequacy of current plan funding, and other factors." (p. 10).

Even though CalSTRS is currently well-funded, in the future the liabilities for the closed group of current participants could exceed assets, creating an unfunded liability. A substantial reduction in the contributions from new hires would have an adverse impact on the pay-down of any unfunded liability of the plan.

UNITED TEACHERS LOS ANGELES

"Impact of Mandatory Coverage of State and Local Workers on Public Education in California"

Presentation by William S. Lambert
United Teachers Los Angeles

I am here to express the very grave concern of the California public school system and its teachers over a possible proposal to impose mandatory Social Security coverage on new State and local government workers as part of the current effort to restore the long-term solvency of the Social Security trust fund.

Such a proposal would have a devastating fiscal impact on the California school system and would seriously undermine the State's pending effort to achieve the very class-size reduction that the President and the Vice President have been advocating as a national policy.

I represent the United Teachers of Los Angeles, the 40,000 teachers who work for the Los Angeles Unified School District (LAUSD), the largest school district in California. Statewide, California has over 400,000 active teachers working for 1,100 school districts.

Mandating our teachers into Social Security will have a harsh impact on both school districts and teachers. School districts will have to respond to the mandate in one of a number of ways, all of which negatively impact teachers and the cost of public education:

1) Pay an additional 6.2% of payroll for Social Security on top of employer costs required to fund the retirement benefits provided by the California State Teachers' Retirement System (CalSTRS).

   This scenario would cost LAUSD alone $440 million in the first 10 years. On a statewide basis, this alternative is projected to cost school districts $3.8 billion dollars in the first 10 years. If the school district has to absorb the cost of the employee's 6.2% tax, this cost to the district could double.

2) Reduce CalSTRS benefits to a level that when combined with Social Security benefits would equate to the current level of benefits provided by CalSTRS.

   If Social Security is substituted for a large portion of the current State pension benefit, contributions to the State plan will have to increase substantially in order to fund the same level of benefits as currently provided to California teachers. CalSTRS has calculated these costs at over 7% of payroll. Based upon California's estimated current teacher payroll of $16 billion, the increase in total cost would be $1.1 billion per year, and increasing over time with growth in payroll. If the employer is required to absorb these costs, the impact to school districts would be doubled. If employees were required to share these increased costs, the impact of mandating Social Security would mean a reduction in salary of nearly 10 percent (6.2% SS tax plus 3.5% increased retirement costs).

3) Reduce CalSTRS benefits to that which can be funded within current contribution levels after funding mandatory Social Security contributions.

   Employers cannot provide an adequate benefit with the funds remaining after paying mandatory Social Security contributions. Staying within current contribution cost levels leaves only a 1.8% of compensation sliver to fund CalSTRS retirement benefits. You are then requiring teachers to reduce their standard of living in retirement. How are employers suppose to attract qualified and talented teachers into a profession that can't provide adequate retirement benefits? Schools will not be able to achieve its goal of educating our children.

In any scenario, school districts and their teachers will be harmed permanently. For what? To extend the solvency of the Social Security trust fund for a mere two years. Two years. Certainly this does not justify the decimation of school districts in California. It will be our school children who will suffer. There will be decreased money for textbooks, library services, athletic programs, music programs. The list goes on.

California's budget outlook for the near future has just been released and the forecast is grim. With current projections showing a $1 billion shortfall in the budget beginning July 1, 1999, Governor-elect Gray Davis has recently announced that the aggressive education reform he campaigned on must be scaled back. In addition, California school districts are already attempting to implement its broad-ranging new class-size reduction programs. Mandatory coverage is certain to impede if not halt school districts' ability to fully implement class size reduction and other education reforms.

In addition to the impact that will be felt by teachers as a result of the increased employer costs, there are the real hard dollar costs that will hit teachers. At a minimum, teachers will have a reduction in their take home pay of at least the 6.2% Social Security contribution and potentially as much as 10% with the increased State retirement plan cost. Teachers in Los Angeles can't afford to achieve the American dream of buying a house now on their current salaries. How can they ever hope to with a loss in take-home pay of these proportions? If school districts are required to increase salaries to offset the impact of the Social Security tax on employees (as I can assure you UTLA will make every effort to do); the harsh fiscal impact on school districts will be just that much greater.

Proponents of mandatory coverage argue that mandating uncovered public employees into the Social Security system is only a matter of fairness and equity. UTLA takes exception with that argument. Where were these arguments before Social Security reached crisis mode? Mandatory coverage would not be proposed at this time if not for the condition of the Social Security trust fund. So let's call this what it really is - a bailout of the Social Security trust fund on the backs of school teachers and other state and local workers who did not create the problem.

UTLA is opposed to mandatory Social Security on the basis that it is blatantly unfair to now mandate into Social Security employees originally prevented from participating and instead told to fend for themselves. Public employees did just that and now will be penalized for it. I ask you - where is the fairness and equity in that?

AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES
AMERICAN FEDERATION OF TEACHERS
FRATERNAL ORDER OF POLICE
INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION
INTERNATIONAL PERSONNEL MANAGEMENT ASSOCIATION
INTERNATIONAL UNION OF POLICE ASSOCIATIONS
LEAGUE OF CALIFORNIA CITIES
NATIONAL ASSOCIATION OF COUNTIES
NATIONAL ASSOCIATION OF GOVERNMENT DEFERRED COMPENSATION ADMINISTRATORS
NATIONAL ASSOCIATION OF POLICE ORGANIZATIONS
NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS
NATIONAL CONFERENCE OF STATE LEGISLATORS
NATIONAL EDUCATION ASSOCIATION
NATIONAL CONFERENCE ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS
NATIONAL COUNCIL ON TEACHER RETIREMENT
NATIONAL LEAGUE OF CITIES
NATIONAL PUBLIC EMPLOYER LABOR RELATIONS ASSOCIATION
SERVICE EMPLOYEES INTERNATIONAL UNION
UNITED STATES CONFERENCE OF MAYORS

December 7, 1998

The Honorable William Jefferson Clinton
The President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

RE: White House Conference on Social Security

Dear Mr. President:

On behalf of state and local governments, public unions, and millions of public employees, retirees, and beneficiaries, the national public organizations listed above are writing to strongly oppose any effort to impose mandatory Social Security coverage on State and local workers. The sharp payroll cost inherent in mandatory Social Security coverage will have a devastating fiscal impact on State and local governments that do not participate in Social Security spread across virtually every state.

State and local governments have only two responses available when confronted by such a heavy cost burden coming from the Federal government -- raising taxes or cutting spending on other essential government services. Ironically, these fiscal demands will have an enormous impact on services such as elementary and secondary education and public safety, at a time when political leaders at all levels in this country are looking to improve such services.

It is important to remember that at the time Social Security was established, State and local governments and their workers were barred from participating in the program. State and local governments designed their own retirement plans in reliance on that exclusion, and benefits were structured and funded on that basis.

At the end of the day, all the Federal government would reap from the State and local government turmoil that would be caused by this proposal would be short-term additional cash flow to pay current beneficiaries. In the long-run, however, covering these additional employees would only impose additional liabilities on the Social Security system and ultimately would result in increasing the expenditures that must be paid out of the program.

We are a diverse group representing public interests. We strongly urge the Administration and Congress to look beyond short-term Federal revenue needs and to consider the severe cost and dislocation that would be imposed on State and local governments, their taxpayers, their millions of workers, and their retirement systems. We look forward to working with you further on this issue of crucial importance.

Sincerely,

American Federation of State, County And Municipal Employees (AFSCME 202/429-1188)
American Federation of Teachers (AFT 202/879-4582)
Fraternal Order of Police (FOP 202/547-8189)
International Association of Fire Fighters (IAFF 202/737-8484)
International City/County Management Association (ICMA 202/)
International Personnel Management Association (IPMA 703/549-7100)
International Union of Police Associations (IUPA 703/549-7473)
League of California Cities (LCC 202/833-0007)
National Association of Counties (NACo 202/393-6226)
National Association of Government Deferred Compensation Administrators (NAGDCA 703/683-2573)
National Association of Police Organizations (NAPO 202/842-4420)
National Association of State Retirement Administrators (NASRA 202/624-1417)
National Conference of State Legislators (NCSL 202/624-8670)
National Education Association (NEA 202/822-7324)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR 703/243-3494)
National League of Cities (NLC 202/626-3020)
National Public Employer Labor Relations Association (NPELRA 202/296-2230)
Service Employees International Union (SEIU 202/898-3413)
United States Conference of Mayors (USCM 202/861-6709)